

**HOSPITAL SERVICE DISTRICT NO. 3
OF THE PARISH OF LAFOURCHE,
STATE OF LOUISIANA
(D/B/A THIBODAUX REGIONAL
MEDICAL CENTER)
Thibodaux, Louisiana
Audited Financial Statements
Years Ended September 30, 2006 and 2005**

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 3-28-07

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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Hospital Service District No. 3 of the
Parish of Lafourche, State of Louisiana

We have audited the accompanying balance sheets of Hospital Service District No. 3 of the Parish of Lafourche, State of Louisiana (d/b/a Thibodaux Regional Medical Center) (the "Hospital") as of September 30, 2006, and the related statements of revenue, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Hospital Service District No. 3 of the Parish of Lafourche, State of Louisiana (d/b/a Thibodaux Regional Medical Center) for the year ended September 30, 2005 were audited by other auditors whose report, dated January 26, 2006, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of September 30, 2006, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 14, 2007, on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The management's discussion and analysis on pages 3 through 13 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Home LLP

Jackson, Mississippi
February 14, 2007

**HOSPITAL SERVICE DISTRICT NO. 3 OF THE PARISH OF LAFOURCHE, STATE
OF LOUISIANA (d/b/a THIBODAUX REGIONAL MEDICAL CENTER)
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Years Ended September 30, 2006 and 2005**

This section of the Hospital Service District No. 3 of the Parish of Lafourche, State of Louisiana (d/b/a Thibodaux Regional Medical Center) (the "Hospital"), annual financial report provides important background information and management's analysis of the Hospital's financial performance during the fiscal years ended September 30, 2006 and 2005. Please read this section in conjunction with the basic financial statements in this report.

REQUIRED FINANCIAL STATEMENTS

The basic financial statements contained in this report are presented using Governmental Accounting Standards Board ("GASB") accounting principles. These financial statements offer short-term and long-term financial information about the Hospital's activities.

The balance sheets include all of the Hospital's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to Hospital creditors (liabilities). They also provide the basis for computing rate of return, evaluating the capital structure of the Hospital, and assessing the liquidity and financial flexibility of the Hospital.

All of the current year's revenues and expenses are accounted for in the statement of revenues, expenses, and changes in net assets. This statement measures changes in the Hospital's operations over the past year and can be used to determine whether the Hospital has been able to recover all of its costs through its net patient service revenue and other revenue sources.

The final required financial statement is the statement of cash flows. The primary purpose of this statement is to provide information about the Hospital's cash from operating, investing, and financing activities and to provide answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

FINANCIAL ANALYSIS OF THE HOSPITAL

The balance sheets and the statements of revenues, expenses, and changes in net assets report information about the Hospital's activities. Increases or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or deteriorating. However, other nonfinancial factors such as changes in the health care industry, changes in Medicare and Medicaid regulations, and changes in managed care contracting should also be considered.

2006 FINANCIAL HIGHLIGHTS

The following summarizes the Hospital's financial highlights for the year ended September 30, 2006.

The Hospital generated \$23,717,000 in cash from operations during the year ended September 30, 2006. Investments in property and equipment totaled \$23,276,000 for the 2006 fiscal year.

**HOSPITAL SERVICE DISTRICT NO. 3 OF THE PARISH OF LAFOURCHE, STATE
OF LOUISIANA (d/b/a THIBODAUX REGIONAL MEDICAL CENTER)
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Years Ended September 30, 2006 and 2005**

The Hospital reported an increase in net patient services revenue of \$13,553,000 in 2006. This was a 16 percent increase compared to 2005. The increase was driven by volume increases and the introduction of new services in 2006.

The Hospital's operating margin was 17.6 percent in 2006 versus 15.7 percent in 2005. Operating expenses increased at a slower rate than operating revenue.

Balance Sheets

The Hospital's condensed balance sheets are presented below:

	TABLE 1			
	September 30,		Dollar	Percent
	2006	2005	Change	Change
	(In Thousands)			
Total current assets	\$ 27,382	\$ 27,706	\$ (324)	(1)
Property, plant, and equipment, net	94,194	78,435	15,759	20
Investments	72,668	67,588	5,080	8
Other	368	148	220	49
Total assets	\$ 194,612	\$ 173,877	\$ 20,735	12
Total current liabilities	\$ 10,369	\$ 10,468	\$ (99)	(1)
Net assets	184,243	163,409	20,834	13
Total liabilities and net assets	\$ 194,612	\$ 173,877	\$ 20,735	12

As shown in Table 1 above total assets increased by \$20,735,000, or 12 percent, to \$194,612,000 at September 30, 2006, up from \$173,877,000 at September 30, 2005.

Current Assets

A slight decrease in current assets resulted primarily from a decrease in cash which was offset by an increase in accounts receivable. Management invests excess cash in investments. At September 30, 2006, current assets continued to exceed current liabilities. The current ratio remained at 2.6 at September 30, 2006. These calculations exclude consideration of the investments designated by the board of commissioners for plant and equipment additions and replacements. Including these liquid investments in the calculations would yield substantially higher ratios.

**HOSPITAL SERVICE DISTRICT NO. 3 OF THE PARISH OF LAFOURCHE, STATE
OF LOUISIANA (d/b/a THIBODAUX REGIONAL MEDICAL CENTER)
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Years Ended September 30, 2006 and 2005**

Capital Assets

Table 2 presents the components of the Hospital's capital assets at September 30, 2006 and 2005.

TABLE 2

	September 30,	
	2006	2005
	<i>(In Thousands)</i>	
Land and land improvements	\$ 5,751	\$ 5,751
Building, fixed equipment, and equipment	110,508	93,338
Subtotal	116,259	99,089
Less accumulated depreciation and amortization	(61,098)	(54,709)
Construction in progress	39,033	34,055
Net capital assets	\$ 94,194	\$ 78,435

During fiscal year 2006, the Hospital invested \$23,276,000 in a broad range of capital assets. Net capital assets has increased as the Hospital has enhanced existing facilities and equipment and is in the process of building an adjoining medical office building and new space to accommodate inpatient services. These additions significantly exceed the current fiscal year's depreciation expense.

In Table 3, the Hospital's fiscal year 2007 capital budget projects spending up to \$24,000,000. These projects are expected to be financed from operations. More information about the Hospital's capital assets is presented in the notes to the basic financial statements.

TABLE 3

Equipment purchases	\$ 4,000,000
Construction / renovation	20,000,000
Total	\$ 24,000,000

Net Assets

Table 4 presents the components of the Hospital's net assets at September 30, 2006 and 2005:

TABLE 4

	September 30,	
	2006	2005
	<i>(In Thousands)</i>	
Invested in capital assets, net of related debt	\$ 94,194	\$ 78,435
Unrestricted	90,049	84,974
	\$ 184,243	\$ 163,409

**HOSPITAL SERVICE DISTRICT NO. 3 OF THE PARISH OF LAFOURCHE, STATE
OF LOUISIANA (d/b/a THIBODAUX REGIONAL MEDICAL CENTER)
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Years Ended September 30, 2006 and 2005**

During 2006, total net assets increased \$20,834,000, or 13 percent, as a result of revenue exceeding expenses.

The Hospital purchased \$23,276,000 of capital assets during 2006, which increased the reported amount of net assets invested in capital assets. This increase was offset by depreciation expense of \$7,517,000.

Statements of Revenue and Expenses

A summary of the Hospital's revenues and expenses for fiscal years 2006 and 2005 is presented below:

	TABLE 5			
	Years Ended September 30,		Dollar	Percent
	2006	2005	Change	Change
	(In Thousands)			
Revenue				
Net patient service revenue	\$ 96,237	\$ 82,684	\$ 13,553	16%
Other revenue	1,403	1,339	64	5%
Total operating revenue	97,640	84,023	13,617	16%
Expenses				
Salaries and wages and employee benefits and payroll taxes	35,516	32,297	3,219	10%
Other operating expenses	37,429	30,977	6,452	21%
Depreciation and amortization	7,517	7,542	(25)	-
Total operating expenses	80,462	70,816	9,646	
Income from operations	17,178	13,207	3,971	30%
Nonoperating income	3,656	2,084	1,572	75%
Revenue in excess of expenses	\$ 20,834	\$ 15,291	\$ 5,543	36%

**HOSPITAL SERVICE DISTRICT NO. 3 OF THE PARISH OF LAFOURCHE, STATE
OF LOUISIANA (d/b/a THIBODAUX REGIONAL MEDICAL CENTER)
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Years Ended September 30, 2006 and 2005**

Net Patient Service Revenue

During fiscal year 2006, the Hospital derived 99 percent of its total operating revenue from net patient service revenue. Total net patient service revenue increased \$13,553,000, or 16 percent, in 2006. Increases in net patient service revenue are due primarily to increases in outpatient volumes, surgery, and the addition of new services. Overall activity at the Hospital as measured by inpatient acute discharges increased 1.9 percent to 6,988 discharges in 2006 from 6,857 discharges in 2005. Acute patient days increased 12.9 percent over prior year, from 27,642 in 2005 to 31,194 in 2006. As a result, the average length of stay for acute patients (excluding newborns) increased to 4.5 days in 2006 from 4.0 days in 2005.

Table 6 presents the relative percentages of gross charges billed for patient services by payor for fiscal years 2006 and 2005:

TABLE 6

	Years Ended September 30,	
	2006	2005
Medicare (includes Medicare Replacement)	49%	49%
Managed care	37	37
Medicaid	10	10
Self-pay	4	4
	100%	100%

The following table presents the components of net patient service revenue for fiscal years 2006 and 2005:

TABLE 7

	Years Ended September 30,		Change	
	2006	2005	Dollar	Percent
	<i>(In Thousands)</i>			
Gross patient service charges	\$ 258,654	\$ 219,767	\$ 38,887	18%
Contractual and other allowances				
Medicare	86,487	74,856	11,631	16%
Managed care	44,817	32,267	12,550	39%
Medicaid	22,131	20,070	2,061	10%
Other	3,295	3,526	(231)	(7)%
Total contractual allowances	156,730	130,719	26,011	20%
	101,924	89,048	12,876	14%
Provision for bad debts	5,687	6,364	(677)	(11)%
Net patient service revenue	\$ 96,237	\$ 82,684	\$ 13,553	16%

**HOSPITAL SERVICE DISTRICT NO. 3 OF THE PARISH OF LAFOURCHE, STATE
OF LOUISIANA (d/b/a THIBODAUX REGIONAL MEDICAL CENTER)
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Years Ended September 30, 2006 and 2005**

Gross patient service charges increased \$38,887,000 or 18 percent from prior year primarily due to increased patient volume. Net patient service revenue, before provision for bad debts, increased \$12,876,000, or 14 percent. Total contractual allowances as a percentage of gross patient service charges increased to 61 percent in the current year from 60 percent in the prior year.

Excluded from gross patient service charges are amounts forgone for patient services falling under the Hospital's charity care policy. These amounts are based on established rates for the services provided. Gross charges of \$4,126,000 were forgone during the current fiscal year compared to \$1,471,000 in the prior fiscal year. This increase was related to the growth in the number of patients applying for financial assistance.

The provision for bad debts decreased to \$5,687,000 from the prior-year amount of \$6,364,000. This \$677,000 or 11 percent decrease is driven primarily by an offsetting increase in charity care write-offs.

Operating Expenses

Employee-related expenses increased \$3,219,000, or 10 percent, to \$35,516,000 in the current fiscal year from \$32,297,000 in the prior fiscal year. The increase is mainly due to wage increases that were effective January 2006 and an increase in employees. As a percentage of total revenue, these expenses were approximately 36 percent for 2006 and 38% for 2005.

Other operating expenses increased \$6,452,000, or 21 percent, from the prior year. The increase is primarily due to an increase in supply expense as a result of volume increases as well as increases in physician recruiting expenses. As a percentage of total revenue, these expenses were approximately 38 percent and 37 percent for 2006 and 2005, respectively.

Nonoperating Income

Nonoperating income is comprised primarily of investment income. Investment income consists of interest earnings on funds designated by the board of commissioners. Other gains realized that are not directly related to the provision of health care services are also classified as nonoperating income. Nonoperating income increased from the prior year primarily due to the higher interest rates in 2006.

2005 FINANCIAL HIGHLIGHTS

The following summarizes the Hospital's financial highlights for the year ended September 30, 2005.

The Hospital generated \$17,856,000 in cash from operations during the year ended September 30, 2005. Investments in property and equipment totaled \$24,619,000 for the 2005 fiscal year.

**HOSPITAL SERVICE DISTRICT NO. 3 OF THE PARISH OF LAFOURCHE, STATE
OF LOUISIANA (d/b/a THIBODAUX REGIONAL MEDICAL CENTER)
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Years Ended September 30, 2006 and 2005**

The Hospital reported an increase in net patient service revenue of \$4,036,000 in 2005. This was a 5 percent increase compared to 2004. The increase was driven by volume increases and the introduction of new services in 2005.

The Hospital's operating margin was 15.7 percent in 2005 versus 14.1 percent in 2004. Operating expenses increased at a slower rate than operating revenue.

Balance Sheets

The Hospital's condensed balance sheets are presented below:

	TABLE 8 September 30,		Dollar	Percent
	2005	2004		
	<i>(In Thousands)</i>		Change	Change
Total current assets	\$ 27,706	\$ 26,905	\$ 801	3%
Property, plant, and equipment, net	78,435	61,358	17,077	28%
Investments	67,588	70,818	(3,230)	(5)%
Other	148	-	148	100%
Total assets	<u>\$ 173,877</u>	<u>\$ 159,081</u>	<u>\$ 14,796</u>	9%
Total current liabilities	\$ 10,468	\$ 10,962	\$ (494)	(5)%
Net assets	<u>163,409</u>	<u>148,119</u>	<u>15,290</u>	10%
Total liabilities and net assets	<u>\$ 173,877</u>	<u>\$ 159,081</u>	<u>\$ 14,796</u>	9%

As shown in Table 8, total assets increased by \$14,796,000, or 9 percent, to \$173,877,000 at September 30, 2005, up from \$159,081,000 at September 30, 2004.

Current Assets

Increases in current assets result primarily from the increase in accounts receivable exceeding the decrease in cash at September 30, 2005, compared to the amounts at September 30, 2004. Management invests excess cash in investments. At September 30, 2005, current assets continued to exceed current liabilities. The current ratio increased to 2.6 at September 30, 2005, versus 2.5 at September 30, 2004. These calculations exclude consideration of the investments designated by the board of commissioners for plant and equipment additions and replacements. Including these liquid investments in the calculations would yield substantially higher ratios.

**HOSPITAL SERVICE DISTRICT NO. 3 OF THE PARISH OF LAFOURCHE, STATE
OF LOUISIANA (d/b/a THIBODAUX REGIONAL MEDICAL CENTER)
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Years Ended September 30, 2006 and 2005**

Capital Assets

The following table presents the components of the Hospital's capital assets at September 30, 2005 and 2004:

TABLE 9

	September 30,	
	2005	2004
	<i>(In Thousands)</i>	
Land and land improvements	\$ 5,751	\$ 3,370
Building, fixed equipment, and equipment	93,338	93,218
Subtotal	99,089	96,588
Less accumulated depreciation and amortization	(54,709)	(49,621)
Construction in progress	34,055	14,391
Net capital assets	\$ 78,435	\$ 61,358

During fiscal year 2005, the Hospital invested \$24,619,000 in a broad range of capital assets. Net capital assets has increased as the Hospital has enhanced existing facilities and equipment and is in the process of building an adjoining medical office building and new space to accommodate inpatient services. These additions significantly exceeded the current fiscal year's depreciation expense.

In Table 10, the Hospital's fiscal year 2006 capital budget projects spending up to \$30,685,000. These projects are expected to be financed from operations. More information about the Hospital's capital assets is presented in the notes to the basic financial statements.

TABLE 10

Equipment purchases	\$ 3,000,000
Construction/renovation	27,685,000
Total	\$ 30,685,000

Net Assets

The following table presents the components of the Hospital's net assets at September 30, 2005 and 2004:

**HOSPITAL SERVICE DISTRICT NO. 3 OF THE PARISH OF LAFOURCHE, STATE
OF LOUISIANA (d/b/a THIBODAUX REGIONAL MEDICAL CENTER)
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Years Ended September 30, 2006 and 2005**

TABLE 11

	September 30,	
	2005	2004
	<i>(In Thousands)</i>	
Invested in capital assets, net of related debt	\$ 78,435	\$ 61,358
Unrestricted	84,974	86,761
	<u>\$ 163,409</u>	<u>\$ 148,119</u>

During 2005, total net assets increased \$15,290,000, or 10 percent, as a result of revenue exceeding expenses.

The Hospital purchased \$24,619,000 of capital assets during 2005, which increased the reported amount of net assets invested in capital assets. This increase was offset by depreciation expense of \$7,542,000.

Statements of Revenue and Expenses

A summary of the Hospital's revenue and expenses for fiscal years 2005 and 2004 is presented below:

	Years Ended September 30,		Dollar Change	Percent Change
	2005	2004		
	<i>(In Thousands)</i>			
Revenue				
Net patient service revenue	\$ 82,684	\$ 78,648	\$ 4,036	5%
Other revenue	1,339	1,371	(32)	(2)%
Total operating revenue	<u>84,023</u>	<u>80,019</u>	<u>4,004</u>	5%
Expenses				
Salaries and wages and employee benefits and payroll taxes	32,297	30,197	2,100	7%
Other operating expenses	30,977	30,965	12	0%
Depreciation and amortization	7,542	7,366	176	2%
Interest	-	278	(278)	(100)%
Total operating expenses	<u>70,816</u>	<u>68,806</u>	<u>2,010</u>	3%
Income from operations	13,207	11,213	1,994	18%
Nonoperating income	2,084	931	1,153	124%
Bond retirement costs	-	(828)	828	(100)%
Revenue in excess of expenses	<u>\$ 15,291</u>	<u>\$ 11,316</u>	<u>\$ 3,975</u>	35%

**HOSPITAL SERVICE DISTRICT NO. 3 OF THE PARISH OF LAFOURCHE, STATE
OF LOUISIANA (d/b/a THIBODAUX REGIONAL MEDICAL CENTER)
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Years Ended September 30, 2006 and 2005**

Net Patient Service Revenue

During fiscal year 2005, the Hospital derived 98 percent of its total operating revenue from net patient service revenue. Total net patient service revenue increased \$4,036,000, or 5 percent, in 2005. Increases in net patient service revenue primarily are due to increases in outpatient volumes, surgery, and the addition of new services. Overall activity at the Hospital, as measured by inpatient acute discharges, decreased 4.5 percent to 6,857 discharges in 2005 from 7,167 discharges in 2004. Acute patient days increased .7 percent over prior year, from 27,437 in 2004 to 27,642 in 2005. As a result, the average length of stay for all patients (excluding newborns) increased to 4.00 days in 2005 from 3.83 days in 2004.

The following table presents the relative percentages of gross charges billed for patient services by payor for fiscal years 2005 and 2004:

TABLE 12

	Years Ended September 30,	
	2005	2004
Medicare	49%	49%
Managed care	37	38
Medicaid	10	10
Self-pay	4	3
	100%	100%

Table 13 presents the components of net patient service revenue for fiscal years 2005 and 2004:

TABLE 13

	Years Ended September 30,		Change	
	2005	2004	Dollar	Percent
	<i>(In Thousands)</i>			
Gross patient service charges	\$ 219,767	\$ 205,310	\$ 14,457	7%
Contractual and other allowances				
Medicare	74,856	70,455	4,401	6%
Managed care	32,267	28,870	3,397	12%
Medicaid	20,070	17,988	2,082	11%
Other	3,526	4,843	(1,317)	(27)%
Total contractual allowances	130,719	122,156	8,563	7%
	89,048	83,154	5,894	7%
Provision for bad debts	6,364	4,506	1,858	41%
Net patient service revenue	\$ 82,684	\$ 78,648	\$ 4,036	4%

**HOSPITAL SERVICE DISTRICT NO. 3 OF THE PARISH OF LAFOURCHE, STATE OF
LOUISIANA (d/b/a THIBODAUX REGIONAL MEDICAL CENTER)
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Years Ended September 30, 2006 and 2005**

Gross patient service charges increased \$14,457,000, or 7 percent, from prior year primarily due to increased patient volume. Net patient service revenue, before provision for bad debts, increased \$5,894,000, or 7 percent, as there was no change in total contractual allowances as a percentage of gross patient services charges.

Excluded from gross patient service charges are amounts forgone for patient services falling under the Hospital's charity care policy. These amounts are based on established rates for the services provided. Gross charges of \$1,471,000 were forgone during the current fiscal year compared to \$884,000 in the prior fiscal year. This increase was related to the growth in the number of patients applying for financial assistance.

The provision for bad debts increased to \$6,364,000 from the prior-year amount of \$4,506,000. This \$1,858,000, or 41 percent, increase is driven primarily by the increase in self-pay revenue.

Operating Expenses

Employee-related expenses increased \$2,100,000, or 7 percent, to \$32,297,000 in the current fiscal year from \$30,197,000 in the prior fiscal year. The increase is mainly due to wage increases that were effective January 2005 and a small increase in employees. As a percentage of total revenue, these expenses were approximately 38 percent for each of the fiscal years ended September 30, 2005 and 2004.

Other operating expenses increased \$12,000, or zero percent, from prior year. As a percentage of total revenue, these expenses were approximately 37 percent and 39 percent for 2005 and 2004, respectively.

Depreciation and amortization expense increased \$176,000, or 2 percent, from prior year. Depreciation expense remained consistent between years as most of the current-year capital assets additions were to construction in progress.

Nonoperating Income

Nonoperating income is comprised primarily of investment income. Investment income consists of interest earnings on funds designated by the board of commissioners. Other gains realized that are not directly related to the provision of health care services are also classified as nonoperating income. The net unrealized gain on market value adjustments is also included in this amount. Nonoperating income increased from the prior year primarily due to higher interest rates in 2005.

CONTACTING THE HOSPITAL'S FINANCIAL MANAGER

This financial report is designated to provide our citizens, customers, and creditors with a general overview of the Hospital's finances and to demonstrate the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Hospital administration.

**HOSPITAL SERVICE DISTRICT NO. 3 OF THE PARISH OF LAFOURCHE,
STATE OF LOUISIANA
(d/b/a Thibodaux Regional Medical Center)
Balance Sheets
September 30, 2006 and 2005**

	2006	2005
ASSETS		
Current assets		
Cash and cash equivalents	\$ 8,824,150	\$ 9,819,442
Investments	666,807	654,684
Patient accounts receivable, net of allowance for uncollectible accounts of \$9,137,000 and \$8,829,000, respectively	15,717,929	15,196,988
Interest and other receivables	37,485	26,458
Inventories	1,585,511	1,293,292
Prepaid expenses	550,448	715,456
Total current assets	<u>27,382,330</u>	<u>27,706,320</u>
Cash and investments designated by Board for plant and equipment additions and replacements	<u>72,668,066</u>	<u>67,588,279</u>
Other assets	<u>368,393</u>	<u>148,000</u>
Capital assets		
Land and land improvements	5,750,979	5,750,979
Buildings and fixed equipment	61,867,898	45,986,082
Equipment	48,640,134	47,350,835
Accumulated depreciation and amortization	<u>(61,098,457)</u>	<u>(54,708,544)</u>
	55,160,554	44,379,352
Construction in progress	<u>39,033,002</u>	<u>34,055,160</u>
	94,193,556	78,434,512
Total assets	<u>\$ 194,612,345</u>	<u>\$ 173,877,111</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	\$ 5,822,637	\$ 5,362,338
Employee compensation	3,551,685	2,978,629
Amounts due to contractual third-party settlement	995,116	2,126,786
Total current liabilities	<u>10,369,438</u>	<u>10,467,753</u>
Net assets		
Invested in capital assets, net of related debt	94,193,556	78,434,512
Unrestricted	<u>90,049,351</u>	<u>84,974,846</u>
Total net assets	<u>184,242,907</u>	<u>163,409,358</u>
Total liabilities and net assets	<u>\$ 194,612,345</u>	<u>\$ 173,877,111</u>

See accompanying notes.

**HOSPITAL SERVICE DISTRICT NO. 3 OF THE PARISH OF LAFOURCHE,
STATE OF LOUISIANA
(d/b/a Thibodaux Regional Medical Center)**
Statements of Revenue, Expenses and Changes in Net Assets
Years Ended September 30, 2006 and 2005

	2006	2005
Net patient service revenue, net of provision for bad debts of \$5,686,666 and \$6,364,476, respectively	\$ 96,236,949	\$ 82,684,350
Other operating revenue	1,402,774	1,338,731
Total operating revenue	97,639,723	84,023,081
Operating expenses		
Salaries and wages	30,051,578	27,446,156
Employee benefits	5,464,307	4,850,415
Professional fees and services	8,592,816	7,384,246
Supplies and other	16,743,692	12,370,376
Purchased services	7,302,039	6,322,322
Other	4,790,270	4,900,395
Depreciation and amortization	7,517,116	7,542,308
Total operating expenses	80,461,818	70,816,218
Income from operations	17,177,905	13,206,863
Nonoperating revenues		
Investment income	3,642,382	2,069,875
Other	13,262	13,973
Total nonoperating income	3,655,644	2,083,848
Increase in net assets	20,833,549	15,290,711
Net assets, beginning of year	163,409,358	148,118,647
Net assets, end of year	\$ 184,242,907	\$ 163,409,358

See accompanying notes.

**HOSPITAL SERVICE DISTRICT NO. 3 OF THE PARISH OF LAFOURCHE,
STATE OF LOUISIANA
(d/b/a Thibodaux Regional Medical Center)
Statements of Cash Flows
Years Ended September 30, 2006 and 2005**

	2006	2005
Cash flows from operating activities		
Cash received from patients and third-party payors	\$ 94,573,311	\$ 80,377,454
Cash payments to suppliers	(37,316,122)	(30,618,341)
Cash payments to employees	(34,942,829)	(33,241,765)
Cash received from others	1,402,774	1,338,731
Net cash provided by operating activities	<u>23,717,134</u>	<u>17,856,079</u>
Cash flows from non-capital and financing activities		
Grants and contributions received	<u>13,262</u>	<u>13,973</u>
Cash flows from capital and related financing activities		
Acquisition of capital assets, net	<u>(23,276,160)</u>	<u>(24,618,875)</u>
Cash flows from investing activities		
Investment income	3,642,382	2,069,875
Purchases of funds designated by board for plant repair and expansion	(65,000,000)	(63,100,000)
Sale and maturities of funds designated by board for plant repair and expansion	59,920,213	66,330,343
Purchases of investments	<u>(12,123)</u>	<u>(6,281)</u>
Net cash used by investing activities	<u>(1,449,528)</u>	<u>5,293,937</u>
Decrease in cash and cash equivalents	(995,292)	(1,454,886)
Cash and cash equivalents, beginning of year	<u>9,819,442</u>	<u>11,274,328</u>
Cash and cash equivalents, end of year	<u>\$ 8,824,150</u>	<u>\$ 9,819,442</u>

See accompanying notes.

	2006	2005
Reconciliation of income from operations to net cash provided by operating activities		
Cash flows from operating activities		
Income from operations	\$ 17,177,905	\$ 13,206,863
Adjustments to reconcile income from operations to net cash provided by operating activities		
Depreciation and amortization	7,517,116	7,542,308
Provision for bad debts	5,686,666	6,364,476
Changes in operating assets and liabilities		
Patient accounts receivable	(6,207,607)	(8,504,128)
Estimated third-party payor settlements	(1,131,670)	(155,797)
Other receivables and other assets	(66,412)	(153,565)
Inventories	(292,219)	(104,842)
Accounts payable and accrued expenses	460,299	605,958
Accrued employee compensation	573,056	(945,194)
Net cash provided by operating activities	<u>\$ 23,717,134</u>	<u>\$ 17,856,079</u>
Supplemental disclosure of non-cash investing activities		
Trade-In of property and equipment	<u>\$ 628,561</u>	<u>\$ -</u>

**HOSPITAL SERVICE DISTRICT NO. 3 OF THE
PARISH OF LAFOURCHE, STATE OF LOUISIANA
(D/B/A THIBODAUX REGIONAL MEDICAL CENTER)
Years Ended September 30, 2006 and 2005**

NOTES TO FINANCIAL STATEMENTS

Note 1. Organization and Significant Accounting Policies

Organization

The accompanying financial statements include the accounts and transactions of Hospital Service District No. 3 of the Parish of Lafourche, State of Louisiana (d/b/a Thibodaux Regional Medical Center) (the "Hospital"). Hospital Service District No. 3 of the Parish of Lafourche, State of Louisiana, is a nonprofit corporation organized by Lafourche Parish. The Lafourche Parish Council, which is the governing authority of Lafourche Parish, Louisiana, appoints members to the Hospital's board of commissioners. As a political subdivision, the Hospital is exempt from federal income taxes under Section 115 of the Internal Revenue Code. This exemption also extends to state income taxes.

Basis of Accounting

The Hospital uses enterprise fund accounting whereby its consolidated financial statements are prepared using the accrual basis of accounting. Under the accrual basis of accounting, which is in accordance with accounting principles generally accepted in the United States of America for proprietary fund types, substantially all revenues and expenses are subject to accrual.

Pursuant to Government Accounting Standards Board (GASB) Statement No. 20, "*Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*," as amended, the Hospital applies the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) issued on or before November 30, 1989, unless those pronouncements conflict with GASB pronouncements. FASB Statements issued subsequent to November 30, 1989, are not applicable.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein.

In the health care environment, it is reasonably possible that estimates regarding third-party payments could change in the near term as a result of one or more future confirming events (for example, regulatory actions reflecting local or national audit or enforcement initiatives). For most entities with significant third-party revenues, the effect of the change could be material to the financial statements. Where material exposure exists, the uncertainty regarding revenue realization is disclosed in the notes to the financial statements.

**HOSPITAL SERVICE DISTRICT NO. 3 OF THE
PARISH OF LAFOURCHE, STATE OF LOUISIANA
(D/B/A THIBODAUX REGIONAL MEDICAL CENTER)**
Years Ended September 30, 2006 and 2005

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

Operating Revenue and Nonoperating Income

The Hospital's primary purpose is to provide diversified health care services to individuals, physicians, and businesses in Lafourche Parish and the surrounding communities. As such, activities related to the ongoing operations of the Hospital are classified as operating revenue. Operating revenue includes that generated from direct patient care, related support services, gains or losses from disposition of operating properties, rental income, and sundry revenues related to the operation of the Hospital.

Income, gains, and losses from investments not generated from operating funds and those not directly related to the ongoing operations of the Hospital or that occur infrequently, and gifts, grants, and bequests not restricted by donors for specific purposes, are reported as nonoperating income.

Net Patient Service Revenue and Related Receivables

The Hospital provides medical services to government program beneficiaries and has agreements with other third-party payors that provide for payments at amounts different from established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue and related receivables are reported at the estimated net realizable amounts billed to patients, third-party payors, and others for services rendered. The percentage of total net patient service revenue derived from services furnished to Medicare and Medicaid program beneficiaries was approximately 61 percent in 2006 and 43 percent in 2005.

Retroactive settlements are provided for in some of the governmental payment programs outlined above, based on annual cost reports. Such settlements are estimated and recorded as amounts due to or from third-party payors in the financial statements. The differences between these estimates and final determination of amounts to be received or paid are based on audits by fiscal intermediaries and are reported as adjustments to net patient service revenue when such determinations are made. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. These adjustments resulted in increases to net patient service revenue of \$1,915,011 in 2006 and \$216,000 in 2005. Estimated settlements through September 30, 2004, for the Medicare program and for the Medicaid program have been reviewed by program representatives, and adjustments have been recorded to reflect any revisions to the recorded estimates required. The effect of any adjustments that may be made to cost reports still subject to review at September 30, 2006, will be reported in the Hospital's results of operations as such determinations are made.

**HOSPITAL SERVICE DISTRICT NO. 3 OF THE
PARISH OF LAFOURCHE, STATE OF LOUISIANA
(D/B/A THIBODAUX REGIONAL MEDICAL CENTER)
Years Ended September 30, 2006 and 2005**

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

Allowances for doubtful accounts are estimated based on historical write-off and collection percentages, and contractual allowances are estimated based on the terms of third-party insured contracts. Doubtful accounts are written off against the allowance after adequate collection effort is exhausted and recorded as recoveries of bad debts if subsequently collected.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The Hospital believes it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and exclusion from the Medicare and Medicaid programs.

Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Charges forgone, based on established rates, totaled \$4,126,000 in 2006 and \$1,471,000 in 2005.

Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less, including amounts restricted as to use by board designation or under trust agreements.

Investments

All investments are stated at fair value based on quoted market price. Changes in the fair value of investments are included in investment income.

Inventories

Inventories consisting primarily of pharmaceuticals and medical supplies are stated at cost based on the first-in, first-out method or at market, whichever is lower.

**HOSPITAL SERVICE DISTRICT NO. 3 OF THE
PARISH OF LAFOURCHE, STATE OF LOUISIANA
(D/B/A THIBODAUX REGIONAL MEDICAL CENTER)**
Years Ended September 30, 2006 and 2005

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

Capital Assets

The Hospital records all capital assets acquisitions at cost except for assets donated to the Hospital. Donated assets are recorded at fair value at the date of donation. The Hospital provides for depreciation using the straight-line method over the estimated useful lives of the assets.

Net Assets

The Hospital's net assets are classified into three components and are defined as follows:

- Invested in capital assets, net of related debt – This component reports capital assets, including restricted capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. As of September 30, 2006 and 2005, the Hospital had no outstanding debt.
- Restricted – This component reports those net assets with externally imposed constraints placed on their use by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. There were no restricted net assets at September 30, 2006 and 2005.
- Unrestricted – This component reports net assets that do not meet the definition of either of the other two components.

Compensated Absences

Hospital employees are granted both vacation and sick leave. Accumulated vacation pay is accrued at the balance sheet date because it is payable upon termination of employment. Sick pay accrues but is not reflected as a liability because it is not payable upon termination of employment.

Risk management

The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

**HOSPITAL SERVICE DISTRICT NO. 3 OF THE
PARISH OF LAFOURCHE, STATE OF LOUISIANA
(D/B/A THIBODAUX REGIONAL MEDICAL CENTER)**
Years Ended September 30, 2006 and 2005

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

Implementation of New Accounting Principles

Governmental Accounting Standards Board Statement No. 42 ("GASB 42")

The Hospital has adopted the provisions of GASB No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, during the fiscal year 2006. This statement established accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service usage has declined significantly and unexpectedly. This Statement also clarifies and established accounting requirements for insurance recoveries. The adoption of this standard had no impact on net assets as presented.

Government Accounting Standards Board Statement No. 46 ("GASB 46")

The Hospital has adopted GASB No. 46, *Net Assets Restricted by Enabling Legislation – an amendment to GASB No 34*, during fiscal year 2006. This Statement provides clarification of GASB 34's requirement that net assets limited in use by enabling legislation be reported as restricted net assets. The adoption of the standard had no impact on net assets as presented.

Government Accounting Standards Board Statement No. 47 ("GASB 47")

The Hospital has adopted GASB No. 47, *Accounting for Termination Benefits* during fiscal year 2006. This statement establishes accounting standards for recognizing both liabilities and expenses related to voluntary and involuntary termination benefits. Guidance for measuring the cost of the benefits and disclosure requirements are also provided. The adoption of the standard had no impact on net assets as presented.

Reclassifications

Certain reclassifications have been made to the 2005 financial statements to conform to the current year financial statements presentation.

Note 2. Cash and Equivalents, and Investments

In 2005, the Hospital adopted GASB Statement No. 40 ("GASB 40"), *Deposit and Investment Risk Disclosures*, which requires additional disclosures of investment risks related to credit risk, concentration of credit risk, and interest rate risk associated with interest-bearing investments. Such disclosures required by GASB 40 and applicable to the Hospital are reflected below.

**HOSPITAL SERVICE DISTRICT NO. 3 OF THE
PARISH OF LAFOURCHE, STATE OF LOUISIANA
(D/B/A THIBODAUX REGIONAL MEDICAL CENTER)
Years Ended September 30, 2006 and 2005**

NOTES TO FINANCIAL STATEMENTS

Note 2. Continued

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization (NRSRO). The Hospital's investment policy, which conforms to Louisiana state law, does not specifically limit investment in securities based on an NRSRO credit rating, but the policy does designate authorized investments by type.

These authorized investments, within established guidelines, are limited to securities of the U.S. government or its agencies, U.S. government obligations, U.S. and Louisiana municipal bonds, interest-bearing accounts and certificates of deposits of financial institutions, open-end or closed-end management type investment companies or investment trusts, and an investment trust consisting of pooled or commingled funds of other hospitals.

Per GASB 40, unless there is information to the contrary, obligations of the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. The following table presents each applicable rating grouped by investment type at fair value as of September 30, 2006 and 2005. The following investments are exempt from rating disclosure.

By Investment Type	2006	2005
Cash deposits, operating funds	\$ 7,502,974	\$ 8,474,616
Certificates of deposit	65,375,000	63,579,411
Money market deposits	9,281,049	6,008,378
Total cash and investments	\$ 82,159,023	\$ 78,062,405

By Balance Sheet Category	2006	2005
Cash and cash equivalents	\$ 8,824,150	\$ 9,819,442
Short-term investments	666,807	654,684
Designated assets by Board for plant equipment additions and replacements	72,668,066	67,588,279
Total cash and investments	\$ 82,159,023	\$ 78,062,405

Concentration of Credit Risk

The Hospital's investment policy, in accordance with state statute, restricts investments in U.S. agencies to 50 percent of total investments. Investments in open-end and closed-end management type investment companies and investment trusts are limited to 20 percent of total investments. At September 30, 2006 and 2005, management believes the Hospital complies with this policy.

**HOSPITAL SERVICE DISTRICT NO. 3 OF THE
PARISH OF LAFOURCHE, STATE OF LOUISIANA
(D/B/A THIBODAUX REGIONAL MEDICAL CENTER)**
Years Ended September 30, 2006 and 2005

NOTES TO FINANCIAL STATEMENTS

Note 2. Continued

Per GASB 40, concentration of credit risk is defined as the risk of loss attributed to the magnitude of a government's investment in a single issuer. GASB 40 further defines an at-risk investment to be one that represents more than 5 percent of the market value of the total investment portfolio and requires disclosure of such at-risk investments. GASB 40 specifically excludes investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments from the disclosure requirement. At September 30, 2006, the Hospital had no investments requiring concentration-of-credit-risk disclosure.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Hospital will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Hospital will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

Thibodaux Regional Medical Center's formal investment policy is governed by and in conformity with Section 39:2955 of the Louisiana Revised Statutes, which establishes guidelines for depository and investment activity.

- In accordance with statutes of the state of Louisiana, the Hospital maintains its deposits at financial institutions authorized by the Board of Commissioners.
- The collateral for public entity deposits in financial institutions is held in the name of the State Treasurer of Louisiana under a program established by the Louisiana State Legislature and is governed by Section 33:2955 of the Louisiana Revised Statutes. Under this program, the Hospital's funds are protected through a collateral pool administered by the State Treasurer.
- Financial institutions holding deposits of public funds must pledge securities as collateral against these deposits.
- In the event of a financial institution's failure, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation.

Per GASB 40, investments in external investment pools and in open-end mutual funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form. At September 30, 2006, deposits and investments requiring custodial credit risk disclosure totaled \$81,559,000, all of which were insured or collateralized in accordance with state statute.

**HOSPITAL SERVICE DISTRICT NO. 3 OF THE
PARISH OF LAFOURCHE, STATE OF LOUISIANA
(D/B/A THIBODAUX REGIONAL MEDICAL CENTER)
Years Ended September 30, 2006 and 2005**

NOTES TO FINANCIAL STATEMENTS

Note 2. Continued

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

Interest rate risk inherent in the portfolio is measured by monitoring the segmented time distribution of the investments in the portfolio. The table below summarizes the Hospital's segmented time distribution investment maturities in years by investment type as of September 30, 2006 and 2005.

2006

By Investment Type	Fair Value	Years	
		< 1	
Cash deposits, operating funds	\$ 7,502,974	\$	7,502,974
Certificates of deposit	65,375,000		65,375,000
Money market deposits	9,281,049		9,281,049
Total cash and investments	\$ 82,159,023	\$	82,159,023

2005

By Investment Type	Fair Value	Years	
		< 1	
Cash deposits, operating funds	\$ 8,474,616	\$	8,474,616
Certificates of deposit	63,579,411		63,579,411
Money market deposits	6,008,378		6,008,378
Total cash and investments	\$ 78,062,405	\$	78,062,405

Note. 3. Retirement Plan

The Hospital sponsors a deferred compensation plan (the "Plan") under Section 457(b) of the Internal Revenue Code. The Plan covers all employees age 21 or older with one year of service in which at least 1,000 hours were worked. The Plan provides that the Hospital, at its option, may make contributions to the Plan based on a discretionary percentage of eligible employees' base compensation, as defined, as well as matching contributions. The Hospital's discretionary contribution percentage was 4 percent for the years ended September 30, 2006 and 2005. The Plan permits tax deferral by employees of amounts, combined with the Hospital's contribution, up to a maximum of 25 percent of their base compensation, subject to certain limits. Employer contributions vest at 20 percent per year until they reach 100 percent at the end of year five. Employee contributions are immediately vested.

**HOSPITAL SERVICE DISTRICT NO. 3 OF THE
PARISH OF LAFOURCHE, STATE OF LOUISIANA
(D/B/A THIBODAUX REGIONAL MEDICAL CENTER)
Years Ended September 30, 2006 and 2005**

NOTES TO FINANCIAL STATEMENTS

Note 3. Continued

Retirement expense recorded by the Hospital for the years ended September 30, 2006 and 2005, totaled approximately \$674,500 and \$673,000, respectively, or approximately 4 percent of covered payroll in each year.

Note 4. Contingencies

The Hospital participates in the State of Louisiana Patient Compensation Fund (the "Fund") for "medical malpractice claims. As a participant, the Hospital has a statutory limitation of liability which provides that no award can be rendered against it in excess of \$500,000, plus interest and costs. The Fund provides coverage on a claims-made basis for claims over \$100,000 and up to \$500,000. The Hospital is also insured on a claims-made basis through a commercial insurance carrier for malpractice losses up to \$6,000,000 per occurrence, with a total limit of \$8,000,000, and with a self-insurance retention of \$100,000 per occurrence up to a maximum of \$300,000 in the aggregate per year.

The Hospital has been named as defendant in lawsuits alleging medical malpractice. Management of the Hospital, using information provided by its commercial insurance carrier, has accrued in the financial statements its best estimate of probable contingent losses on these claims and on estimated claims incurred but not reported. Amounts accrued for the years ended September 30, 2006 and 2005 were \$937,379 and \$1,037,379, respectively.

The Hospital is self-insured for workers' compensation up to \$100,000 per claim and for employee health insurance up to \$100,000 per claim. A liability is recorded when it is probable that a loss has been incurred and the amount of that loss can be reasonably estimated. Liabilities for claims incurred are reevaluated periodically to take into consideration recently settled claims, frequency of claims, and other economic and social factors. The Hospital purchased commercial insurance that provides coverages for workers' compensation and employee health claims in excess of the self-insured limits.

Changes in the Hospital's aggregate claims liability for medical malpractice, workers' compensation, and employee health insurance in fiscal years 2006 and 2005 were as follows:

Year Ended September 30	Beginning of Fiscal Year Liability	Current-Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year-End
2006	\$ 2,220,000	\$ 2,339,000	\$ 2,569,000	\$ 1,990,000
2005	\$ 1,814,000	\$ 2,876,000	\$ 2,470,000	\$ 2,220,000

**HOSPITAL SERVICE DISTRICT NO. 3 OF THE
PARISH OF LAFOURCHE, STATE OF LOUISIANA
(D/B/A THIBODAUX REGIONAL MEDICAL CENTER)
Years Ended September 30, 2006 and 2005**

NOTES TO FINANCIAL STATEMENTS

Note 5. Postemployment Benefits

The Hospital provides health care benefits to retired Hospital employees and their families. Employees with at least ten years of service and who are age 55 or older at retirement are eligible to participate. Effective January 1, 1996, plan participants are required to contribute 100 percent of the Plan's monthly premium. The Hospital records the excess benefits over the contributions as expense as the benefits are used. For the fiscal year ended September 30, 2006, 20 retired employees participated in the Plan.

Note 6. Capital Assets

Capital assets at September 30, 2006 and 2005, and the changes for each year, consisted of the following:

	2006	2005
Land	\$ 1,737,625	\$ 1,737,625
Land improvements	4,013,354	4,013,354
Building and fixed equipment	61,867,898	45,986,082
Major moveable equipment	48,640,134	47,350,835
Capital assets, at cost	116,259,011	99,087,896
Less accumulated depreciation and amortization	61,098,457	54,708,544
	55,160,554	44,379,352
Construction in progress	39,033,002	34,055,160
Capital assets, net	\$ 94,193,556	\$ 78,434,512

Depreciation expense for the years ended 2006 and 2005 amounted to \$7,517,116 and \$7,542,308, respectively.

**HOSPITAL SERVICE DISTRICT NO. 3 OF THE
PARISH OF LAFOURCHE, STATE OF LOUISIANA
(D/B/A THIBODAUX REGIONAL MEDICAL CENTER)
Years Ended September 30, 2006 and 2005**

NOTES TO FINANCIAL STATEMENTS

Note 6. Continued

Capital assets activity for the year ended September 30, 2006 was as follows:

	Beginning	Additions	Retirements	Ending
Capital assets not being depreciated				
Land	\$ 1,737,625	\$ -	\$ -	\$ 1,737,625
Construction in progress	34,055,160	23,648,893	(18,491,051)	39,033,002
Total capital assets not being depreciated	35,792,785	23,468,893	(18,491,051)	40,770,627
Other capital assets				
Land improvements	4,013,354	-	-	4,013,354
Building and fixed equipment	45,986,082	15,907,342	(25,526)	61,867,898
Major moveable equipment	47,350,835	3,019,538	(1,730,239)	48,640,134
Total other capital assets at historical cost	97,350,271	18,926,880	(1,755,765)	114,521,386
Less accumulated depreciation	(54,708,544)	(7,517,117)	1,127,204	(61,098,457)
Other capital assets, net	42,641,727	11,409,763	(628,561)	53,422,929
Total capital assets, net	\$ 78,434,512	\$ 34,878,656	\$ (19,119,612)	\$ 94,193,556

Capital assets activity for the year ended September 30, 2005 was as follows:

	Beginning	Additions	Retirements	Ending
Capital assets not being depreciated				
Land	\$ 1,737,625	\$ -	\$ -	\$ 1,737,625
Construction in progress	14,391,254	22,893,775	(3,229,869)	34,055,160
Total capital assets not being depreciated	16,128,879	22,893,775	(3,229,869)	35,792,785
Other capital assets				
Land improvements	1,632,530	2,380,824	-	4,013,354
Building and fixed equipment	45,089,596	896,486	-	45,986,082
Major moveable equipment	48,128,150	1,680,267	(2,457,582)	47,350,835
Total other capital assets at historical cost	94,850,276	4,957,577	(2,457,582)	97,350,271
Less accumulated depreciation	(49,621,210)	(7,541,994)	2,454,660	(54,708,544)
Other capital assets, net	45,229,066	(2,584,417)	(2,922)	42,641,727
Total capital assets, net	\$ 61,357,945	\$ 20,309,358	\$ (3,232,791)	\$ 78,434,512

**HOSPITAL SERVICE DISTRICT NO. 3 OF THE
PARISH OF LAFOURCHE, STATE OF LOUISIANA
(D/B/A THIBODAUX REGIONAL MEDICAL CENTER)**
Years Ended September 30, 2006 and 2005

NOTES TO FINANCIAL STATEMENTS

Note 7. Operating Leases

The Hospital leases various equipment and facilities under operating leases expiring at various dates through September 2011. The following is a schedule by year of future minimum lease payments under operating leases that have initial or remaining lease terms in excess of one year.

2007	\$ 281,101
2008	281,101
2009	281,101
2010	265,783
2011	59,157
	<u>\$ 1,168,243</u>

Total rental expense was \$1,186,000 in 2006 and \$1,142,000 in 2005.

The Hospital leases office space in a medical office building and clinical facilities, generally to members of its medical staff, under operating leases with terms ranging up to five years. The future minimum lease payments to be received from these leases follow:

2007	\$ 714,170
2008	324,225
	<u>\$ 1,038,395</u>

The cost of assets held for lease totaled \$1,424,500 and \$5,090,000 at September 30, 2006 and 2005, respectively. Related accumulated amortization was approximately \$4,748 and \$419,000 at September 30, 2006 and 2005. The construction on the Medical Office Building was completed in 2006.

Note 8. Concentrations of Credit Risk

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payer agreements. The mix of accounts receivables from third-party payors at September 30, 2006 and 2005, was as follows:

	2006	2005
Patients and their insurance carriers	61%	68%
Medicare	32	26
Medicaid	7	6
	<u>100%</u>	<u>100%</u>

**HOSPITAL SERVICE DISTRICT NO. 3 OF THE
PARISH OF LAFOURCHE, STATE OF LOUISIANA
(D/B/A THIBODAUX REGIONAL MEDICAL CENTER)
Years Ended September 30, 2006 and 2005**

NOTES TO FINANCIAL STATEMENTS

Note 9. Governmental Regulations

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers in recent years. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Hospital is in compliance with fraud and abuse, as well as other applicable government, laws and regulations. While no material regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

Note 10. Net Patient Service Revenue

The Hospital has agreements with governmental and other third-party payors that provide for payments to the Hospital for services rendered at amounts different from its established rates. Patient revenue is reported net of contractual adjustments arising from these third-party arrangements, as well as net of provisions for bad debts. A summary of the payment arrangements with major third-party payors follows:

Medicare

Inpatient acute, rehabilitation and outpatient services rendered to Medicare beneficiaries are paid primarily by prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Medicare bad debts and disproportionate share payments are paid at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary.

Medicaid

Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed based upon a prospective reimbursement methodology (per diem). The Hospital is reimbursed at a tentative prospective rate which is adjusted annually based on the annual cost reports as submitted by the Hospital and audits by the Medicaid fiscal intermediary.

The Hospital has also entered into payment agreements with certain other commercial insurance carriers and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates and discounts from established charges.

**HOSPITAL SERVICE DISTRICT NO. 3 OF THE
PARISH OF LAFOURCHE, STATE OF LOUISIANA
(D/B/A THIBODAUX REGIONAL MEDICAL CENTER)
Years Ended September 30, 2006 and 2005**

NOTES TO FINANCIAL STATEMENTS

Note 10. Continued

The composition of net patient service revenue as of September 30, includes:

	2006	2005
Gross patient service revenue	\$ 258,653,740	\$ 219,766,995
Less:		
Provisions for contractual adjustments	156,730,125	130,718,169
Provisions for bad debts	5,686,666	6,364,476
Net patient service revenue	<u>\$ 96,236,949</u>	<u>\$ 82,684,350</u>

Note 11. Accounts Receivable and Payable

Patient accounts receivable and accounts payable (including accrued expenses) reported as current assets and liabilities by the Hospital at September 30, 2006 and 2005 consisted of these amounts:

Patient Accounts Receivable

	2006	2005
Receivable from patients and their insurance carriers	\$ 20,388,048	\$ 21,863,559
Receivable from Medicare	4,334,292	2,143,732
Receivable from Medicaid	132,262	19,055
Total patient accounts receivable	24,854,602	24,026,346
Less: allowance for bad debts	(9,136,673)	(8,829,358)
Patient accounts receivable, net	<u>\$ 15,717,929</u>	<u>\$ 15,196,988</u>

Accounts Payable and Accrued Expenses

	2006	2005
Payable to employees (including payroll taxes)	\$ 3,551,685	\$ 2,978,629
Payable to suppliers	5,822,637	5,362,338
Total accounts payable and accrued expenses	<u>\$ 9,374,322</u>	<u>\$ 8,340,967</u>

**HOSPITAL SERVICE DISTRICT NO. 3 OF THE
PARISH OF LAFOURCHE, STATE OF LOUISIANA
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Years Ended September 30, 2006 and 2005**

NOTES TO FINANCIAL STATEMENTS

Note 12. Recent Reporting and Disclosure Developments

Accounting Pronouncements Issued Not Yet Adopted

Governmental Accounting Standards Board Statement No. 43 ("GASB 43")

The Hospital will adopt GASB 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* during fiscal year 2007. In addition to pensions, many state and local governmental employers provide other post employment benefits ("OPEB") as part of the total compensation offered to attract and retain services of qualified employees. OPEB includes postemployment healthcare, as well as other forms of post employment benefits (for example, life insurance) when provided separately from a pension plan.

The standards in this Statement apply for OPEB trust funds included in the financial reports of plan sponsors or employers, as well as for the stand-alone financial reports of OPEB plan or the public employee retirement systems, or other third parties, that administer them. This Statement also provides requirements for reporting of OPEB funds by administrators of multiple-employer OPEB plans, when the fund used to accumulate assets and pay benefits or premiums when due is not a trust fund. Management has not evaluated the effect of adoption of this Statement on the consolidated financial statements.

Government Accounting Standards Board Statement No. 45 ("GASB 45")

The Hospital will adopt GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* during fiscal year 2009. This Statement addresses how state and local governments should account for and report costs and obligations related to post employment benefits ("OPEB"). Management has not evaluated the effect of adopting this Statement.

Governmental Accounting Standards Board Statement No. 48 ("GASB 48")

The Hospital will adopt GASB No. 48, *Sales and Pledges of Receipts and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues* during the fiscal year 2008. This statement establishes criteria that governments will sue to ascertain whether the proceeds received should be reported as revenue or as a liability. Management has not evaluated the effect of adopting this statement.



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL
CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Board of Commissioners
Hospital Service District No. 3 of the
Parish of Lafourche, State of Louisiana

We have audited the financial statements of Hospital Service District No. 3 of the Parish of Lafourche, State of Louisiana (d/b/a Thibodaux Regional Medical Center) as of and for the year ended September 30, 2006, and have issued our report thereon dated February 14, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

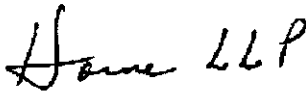
Internal Control Over Financial Reporting

In planning and performing our audit, we considered Hospital Service District No. 3 of the Parish of Lafourche, State of Louisiana's (d/b/a Thibodaux Regional Medical Center) internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hospital Service District No. 3 of the Parish of Lafourche, State of Louisiana's (d/b/a Thibodaux Regional Medical Center) financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Commissioners, Management, and the Office of the State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Hame LLP". The signature is written in a cursive, flowing style.

Jackson, Mississippi
February 14, 2007